

Powers Spalding Water Authority

Annual Financial Report

February 29, 2008

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name POWERS SPALDING WATER AUTHORITY	County MENOMINEE
Fiscal Year End 02-29-08	Opinion Date 05-10-08	Date Audit Report Submitted to State JUNE 10, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

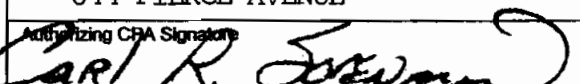
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts Issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects:

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	NONE TO REPORT		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) CARL R. SORENSEN, CPA		Telephone Number (715) 735-9021		
Street Address 844 PIERCE AVENUE		City MARINETTE	State WI	Zip 54143
Authorizing CPA Signature 		Printed Name CARL R. SORENSEN		License Number 1101012650

Powers Spalding Water Authority
February 29, 2008

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Carl R. Sorensen

Certified Public Accountant

844 Pierce Avenue
"In The Northern Building"
P.O. Box 225

Marinette, Wisconsin 54143
Phone 715-735-9021
Fax: 715-735-7116

Independent Auditor's Report

To the Board of Directors
Powers Spalding Water Authority
Powers, MI 49874

I have audited the accompanying basic financial statements of Powers Spalding Water Authority as of February 29, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and standards prescribed by the State Treasurer. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of Powers Spalding Water Authority as of February 29, 2008, and the changes in financial position and cash flows where applicable for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

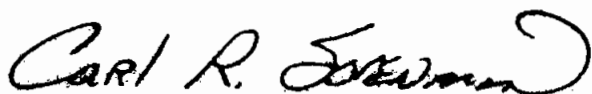
The Authority has not presented management's discussion and analysis which are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report letter dated May 10, 2008, on my consideration of the Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Independent Auditor's Report (continued)

Other Supplemental Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Powers Spalding Water Authority's basic financial Statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and is also not a required part of the basic financial statements of Powers Spalding Water Authority. The other supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects in relation to the financial statements taken as a whole.



Carl R. Sorensen
Certified Public Accountant
May 10, 2008

Powers Spalding Water Authority
Statement of Net Assets
Proprietary Fund
February 29, 2008

ASSETS

Current Assets

Cash and investments	\$ 20,103
Accounts receivable	14,646
Prepaid expense	<u>3,800</u>
Total Current Assets	38,549

Noncurrent Assets

Restricted Assets	
Bond reserve fund	37,400
Bond redemption fund	17,021
Maintenance fund	104,274
Grant fund	701
Capital Assets	
Plant in service	3,245,940
Accumulated depreciation	(527,639)
Other Assets	
Unamortized debt issuance cost	<u>37,828</u>
Total Noncurrent Assets	<u>2,915,525</u>

TOTAL ASSETS **2,954,074**

LIABILITIES

Current Liabilities

Accounts payable	3,485
Accrued interest payable	19,885
Current portion of long-term debt	<u>15,000</u>
Total Current Liabilities	38,370

LONG-TERM LIABILITIES **1,009,000**

TOTAL LIABILITIES **1,047,370**

NET ASSETS

Invested in capital assets, net of related debt	1,694,301
Restricted	159,396
Unrestricted	<u>53,007</u>
TOTAL NET ASSETS	<u>\$ 1,906,704</u>

Powers Spalding Water Authority
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended February 29, 2008

OPERATING REVENUES

Service	\$ 118,523
Fees	17,146
Total Operating Revenues	<u>135,669</u>

OPERATING EXPENSES

Operation	34,452
Administration	26,178
Depreciation	54,250
Total Operating Expenses	<u>114,880</u>

OPERATING INCOME

20,789

NON-OPERATING REVENUES (EXPENSES)

Investment income	4,274
Grant revenue	590,000
Interest expense	(39,007)
Total Non-Operating Revenues (Expenses)	<u>555,267</u>

CHANGE IN NET ASSETS

576,056

NET ASSETS - BEGINNING

1,330,648

NET ASSETS - ENDING

\$ 1,906,704

Powers Spalding Water Authority
Statement of Cash Flows
Proprietary Fund
February 29, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from user charges	\$ 116,530
Cash received from other Governmental units	17,146
Cash payments to employees	(22,230)
Cash payments to suppliers	(32,528)
Net Cash Provided by Operating Activities	78,918

CASH FLOWS USED FOR CAPITAL & RELATED FINANCING ACTIVITIES:

Grant proceeds	590,000
Loan proceeds	450,000
Capital assets purchased	(1,016,193)
Principal paid	(13,000)
Interest paid	(30,128)
Net Cash Used for Capital & Related Financing Activities	(19,321)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>4,274</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS 63,871

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 115,628

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 179,499

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating income	\$ 20,789
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	54,250
Changes in Assets and Liabilities:	
Accounts receivable	(1,993)
Prepaid expenses	3,761
Accounts payable	<u>2,111</u>

NET CASH FLOWS FROM OPERATING ACTIVITIES \$ 78,918

**RECONCILIATION OF CASH AND CASH EQUIVALENTS PER
STATEMENT OF NET ASSETS TO STATEMENT OF CASH FLOWS:**

Amounts Per Statement of Net Assets:	
Unrestricted cash and investments	\$ 20,103
Restricted cash and investments	<u>159,396</u>

CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS \$ 179,499

Powers Spalding Water Authority
Notes to Financial Statements
Proprietary Fund
February 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Introduction

The Powers Spalding Water Authority was incorporated in 1990, pursuant to Act 33, Public Acts of Michigan, 1955 as amended. The authority operates as a jointly Governed Organization. The participants of the Authority are the Village of Powers, Spalding Township and Pinecrest Medical Care Facility. The Authority operates under a Governing body of six members, two members appointed by each participant.

The purpose of the Authority is to provide water service to the residents of the three participants.

Reporting Entity

The Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. This statement provides that proprietary funds may apply all GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless pronouncements conflict or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles (APB) Opinions and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. The Authority has elected to apply only FASB, APB, and ARB materials issued on or before November 30, 1989 to the proprietary funds.

Measurement Focus and Basis Accounting

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Cash and Investments

Cash and investments are combined on the statement of net assets. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For the purpose of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from the date of acquisition are considered to be cash equivalents.

Powers Spalding Water Authority
Notes to Financial Statements
Proprietary Fund
February 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Assets, Liabilities and Net Assets or Equity (continued)

Accounts Receivable

The Primary source of accounts receivable is from customers who are billed monthly for water services. The Authority uses the direct write off method for uncollectible amounts.

User Charges

The Authority charges customers of its Water Department for water usage based on the water flow meter readings. The rates are established by the Authority and are generally based on operating costs as well as nonoperating items such as interest expense.

Prepaid Items

Payments made to vendors that will benefit the end of the current fiscal year are recorded as prepaid items.

Restricted Cash

Cash has been set aside to provide for debt retirement and replacement of certain water plant equipment.

Capital Assets

Capital assets which include property, plant, equipment and infrastructure assets are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of \$1,000 or higher and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Business-Type Activities Years</u>
Buildings, Structure & Improvements	15 - 50

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold otherwise disposed of, the asset account and related accumulated depreciation amount are reduced and any gain or loss is included in operations. The depreciation expense for the year was \$54,250.

Powers Spalding Water Authority
Notes to Financial Statements
Proprietary Fund
February 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):
Assets, Liabilities and Net Assets or Equity (continued)

Unamortized Bond Issuance Costs

Bond issue costs are recorded as other assets and are being amortized over the life of the bond.

Compensated Absences

Under terms of employment, employees are not compensated for vacation and sick leave. Therefore, no long-term liability is recorded at year end.

Equity Classifications

Equity is classified as net assets and displayed in three components:

- a.) *Invested in capital assets net of related debt* - amount of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- b.) *Restricted net assets* - amount of net assets that are subject to restrictions that are imposed by:
 - 1. External groups such as creditors, contributors or laws or regulations of other Governments -or
 - 2. Law through constitutional provisions or enabling legislation
- c.) *Unrestricted net assets* - net assets that are neither classified or restricted nor as invested in capital assets net of related debt.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results may differ from these estimates.

NOTE 2 - CASH AND INVESTMENTS:

The Authority is authorized to invest its funds in accordance with Michigan Statutes. Allowable investments are as follows:

Time Deposits, Direct Obligations of the United States Treasury, United States Repurchase Agreements, Bankers Alliances of U.S. Banks, Commercial Paper, certain Mutual Funds and Investment Pools.

Deposits in banks are insured by federal insurance in the amount of \$100,000 for demand deposits and \$100,000 for time deposits.

Deposits were made in accordance with State of Michigan statutes and under authorization of the Board of Directors.

Powers Spalding Water Authority
Notes to Financial Statements
Proprietary Fund
February 29, 2008

NOTE 2 - CASH AND INVESTMENTS (continued):

At year end the Authority's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Proprietary Fund</u>
Cash & cash equivalents	\$ 179,499
Investments	—
Total	<u>\$ 179,499</u>

The breakdown between deposits and investments for the Authority is as follows:

Deposits	\$ 180,422
Investments in securities	—
Petty cash and cash on hand	—
Total	<u>\$ 180,422</u>

As required by Governmental Accounting Standards Board Statement No. 40, *Deposits and Investment Risk Disclosures*, the following represents a summary of deposits as of February 29, 2008:

Fully insured deposits	\$ 180,422
Collateralized with securities held by the pledging financial institution in the schools name	—
Collateralized with securities held by the pledging financial institutions trust department	—
Uncollateralized	—
	<u>\$ 180,422</u>

NOTE 3 - RESTRICTED ASSETS:

Restricted assets on February 29, 2008 totaled \$159,396 held by the following purposes:

Bond reserve	\$ 37,400
Bond redemption	17,021
Maintenance	104,274
Grant	701
	<u>\$ 159,396</u>

Powers Spalding Water Authority

Notes to Financial Statements

Proprietary Fund

February 29, 2008

NOTE - 4 CAPITAL ASSETS:

Capital asset activity for the year ended February 29, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets not Being Depreciated				
Land	\$ 25,418	\$ -	\$ -	\$ 25,418
Construction in progress	<u>47,016</u>	<u>1,039,285</u>	<u>1,086,301</u>	<u>-</u>
Total Capital Assets Not Being Depreciated	<u>72,434</u>	<u>1,039,285</u>	<u>1,086,301</u>	<u>25,418</u>
Capital Assets Being Depreciated:				
Property and equipment	2,157,313	1,063,209	-	3,220,522
Less: accumulated depreciation	<u>473,389</u>	<u>54,250</u>	<u>-</u>	<u>527,639</u>
Total Capital Assets Being, Net of Depreciation	<u>1,683,924</u>	<u>1,008,959</u>	<u>-</u>	<u>2,692,883</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$1,756,358</u>	<u>\$2,048,244</u>	<u>\$1,086,301</u>	<u>\$2,718,301</u>

Depreciation expense was charged to functions of the Authority as follows:

Water utility	<u>\$ 54,250</u>
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NOTE 5 - LONG-TERM DEBT:

The following is a summary of changes in long-term obligations of the Authority for the year ended February 29, 2008:

	<u>Outstanding 03-01-07</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 02-29-08</u>	<u>Due Within One Year</u>
Revenue bond	\$ 587,000	\$ -	\$ 9,000	\$ 578,000	\$ 10,000
Revenue bond	<u>-</u>	<u>450,000</u>	<u>4,000</u>	<u>446,000</u>	<u>5,000</u>
	<u>\$ 587,000</u>	<u>\$ 450,000</u>	<u>\$ 13,000</u>	<u>\$ 1,024,000</u>	<u>\$ 15,000</u>

Total interest during the year on long-term debt was \$39,007.

	<u>Date of Issuance</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Indebtedness</u>	<u>Balance 02-29-08</u>
Long-Term Obligations:					
Revenue bond	04-19-95	04-19-35	4.5%	\$ 641,000	\$ 578,000
Revenue bond	05-01-07	10-01-46	4.125%	\$ 450,000	<u>446,000</u>
					<u>\$1,024,000</u>

Powers Spalding Water Authority
Notes to Financial Statements
Proprietary Fund
February 29, 2008

NOTE 5 - LONG-TERM DEBT (continued):

Debt service requirements to maturity are as follows:

Year Ended 02-29-08	Principal	Interest	Total
2009	\$ 15,000	\$ 47,048	\$ 62,048
2010	15,000	46,341	61,341
2011	16,000	45,610	61,610
2012	17,000	44,829	61,829
2013	17,000	44,022	61,022
2014-2018	100,000	206,882	306,882
2019-2023	128,000	180,177	308,177
2024-2028	162,000	145,972	307,972
2029-2033	206,000	102,770	308,770
2034-2038	174,000	52,837	226,837
2039-2043	88,000	28,916	116,916
2044-2047	86,000	9,076	95,076
Total	<u>\$ 1,024,000</u>	<u>\$ 954,480</u>	<u>\$ 1,978,480</u>

NOTE 6 - NET ASSETS:

Net assets at February 29, 2008 includes the following:

Invested in Capital Assets, Net of Related Debt:	
Net capital assets	\$ 2,718,301
Less: related long-term debt outstanding	(1,024,000)
Total Invested Capital Assets, Net of Related Debt	<u>1,694,301</u>
Restricted:	
Bond reserve	37,400
Bond redemption	17,021
Maintenance	104,274
Grant fund	701
Total Restricted Assets	<u>159,396</u>
Unrestricted	<u>53,007</u>
Total Net Assets	<u>\$ 1,906,704</u>

NOTE 7 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health claims; unemployment compensation claims and environmental damage for which the Authority purchases commercial insurance. There has been no reduction in insurance coverage from the prior year. Insurance settlements for claims resulting from the risks covered by commercial insurance have not exceeded the insurance coverage in the past year. The Authority has obtained coverage from commercial insurance companies.

OTHER SUPPLEMENTAL INFORMATION

Carl R. Sorensen

Certified Public Accountant

844 Pierce Avenue
"In The Northern Building"
P.O. Box 225

Marinette, Wisconsin 54143
Phone 715-735-9021
Fax: 715-735-7116

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the Provider Agency Audit Guide

To the Board of Directors
Powers Spalding Water Authority
Powers, Michigan

I have audited the financial statements of the Powers Spalding Water Authority, Powers Michigan, as of and for the year ended February 29, 2008, and have issued my report thereon dated May 10, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or a combination of control deficiencies that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

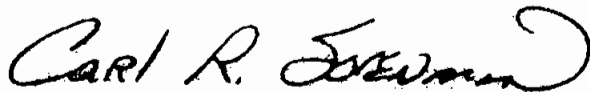
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses as defined above.

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards
and the Provider Agency Audit Guide (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Authority Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Carl R. Sorensen
Certified Public Accountant
May 10, 2008

Carl R. Sorensen

Certified Public Accountant

844 Pierce Avenue
"In The Northern Building"
P.O. Box 225

Marinette, Wisconsin 54143
Phone 715-735-9021
Fax: 715-735-7116

To the Board of Directors
Powers Spalding Water Authority
Powers, Michigan

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

I have audited the compliance of Powers Spalding Water Authority with the types of compliance requirements described in the U.S. Office of Management and Budget OMB Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended February 29, 2008. Powers Spalding Water Authority's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Powers Spalding Water Authority's management. My responsibility is to express an opinion on Powers Spalding Water Authority's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Powers Spalding Water Authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Powers Spalding Water Authority's compliance with those requirements.

In my opinion Powers Spalding Water Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended February 29, 2008.

To the Board of Directors
Powers Spalding Water Authority
Powers, Michigan

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (Continued)**

Internal Control Over Compliance

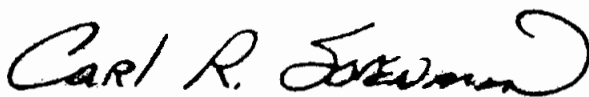
The management of Powers Spalding Water Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing my audit, I considered Powers Spalding Water Authority internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Powers Spalding Water Authority's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that there is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Carl R. Sorensen
Certified Public Accountant
May 10, 2008

Powers Spalding Water Authority
Schedule of Expenditures of Federal Awards
For the Year Ended February 29, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant/Award Amount</u>	<u>Current Year Receipts/ Revenue Recognized</u>	<u>Current Year Disbursement Expenditures Recognized</u>
U.S. Department of Agriculture				
Water and Waste Disposal For Rural Communities	10.760			
Protect Grant		\$ 618,000	\$ 590,000	\$ 590,000
Revenue Bond		<u>450,000</u>	<u>450,000</u>	<u>450,000</u>
Total Federal Financial Assistance		<u>\$ 1,068,000</u>	<u>\$ 1,040,000</u>	<u>\$ 1,040,000</u>

Note - Basis of Presentation:

The accompanying schedule of federal grant awards includes federal grant activity of the Powers Spalding Water Authority and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Powers Spalding Water Authority
Schedule of Findings and Questioned costs
Year Ended February 29, 2008

I. Summary of My Results:

A. Financial Statement Items

1. Unqualified opinion issued.
2. No reportable conditions were noted.
3. No non compliances were disclosed.

B. Single Audit Items

1. No reportable conditions in internal controls over major programs were found.
2. Unqualified opinion issued on compliance for major programs.
3. Major Program - Water and Waste disposal for rural communities (10.760).
4. The dollar threshold that used to distinguish type A and B programs was \$300,000.
5. Powers Spalding Water Authority is not a low risk auditee.

II. Findings Relating to The Financial Statements Audit in Accordance With Government Auditing Standards.

1. No illegal acts involving laws and regulations.
2. No noncompliance with provisions in contracts and grant agreements.
3. No reportable conditions were reported.

III. Findings and Questioned Costs for Federal Awards Using Section 510(a).

1. There were no single audit findings and no questioned costs.

Powers Spalding Water Authority
Schedule of Prior Year Audit Findings and
Corrective Action Plan
Year Ended February 29, 2008

Prior Year Findings

None

Corrective Action Plan

None required